

Message Text

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ACTION EUR-12

INFO OCT-01 IO-14 ISO-00 AID-05 CIAE-00 COME-00 EB-07
FRB-01 INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04
OPIC-06 SP-02 LAB-04 EPG-02 SIL-01 OMB-01 NSC-05
SS-15 STR-04 CEA-01 L-03 H-02 PA-02 PRS-01 /115 W
-----053068 141653Z /42

R 141432Z JUL 77
FM AMEMBASSY BERN
TO SECSTATE WASHDC 4627
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
USMISSION GENEVA
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
AMCONSUL ZURICH

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USDEL MTN ALSO FOR MISSION

USOECN ALSO FOR EMBASSY

PASS TREASURY AND FRB

E.O. 11652: N/A
TAGS: EFIN SZ
SUBJECT: SWISS FINANCIAL REVIEW: WEEK OF JULY 3-9

1. SUMMARY: DOLLAR RATE AGAINST SWISS FRANC FELL
TO SF 2.42. GOLD PRICE INCREASED TO 241.75. DOMESTIC
BOND MARKET BEGAN SUMMER RECESS. GOVERNMENT ANNOUNCED
PLAN TO REDUCE BUDGET DEFICITS DURING PERIOD 1978 TO
1980. AUSTRIAN, SWISS AND WEST GERMAN FINANCE
MINISTERS MET. MOST BANKS HAVE SIGNED JUNE AGREE-
MENT WITH SWISS NATIONAL BANK ON DEPOSIT CONDITIONS.
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SNB PRESIDENT LEUTWILER'S TIME MAGAZINE INTERVIEW
WAS CRITICIZED. BARCLAYS AGREED TO TAKE OVER BANK
LECLERC. END SUMMARY.

2. FOREIGN EXCHANGE AND GOLD: DOLLAR RATE AGAINST
SWISS FRANC FELL ABRUPTLY AT MONDAY OPENING TO SF
2.43. SWISS NATIONAL BANK MADE SPORADIC DOLLAR

PURCHASES WHICH HELPED SUPPORT RATE AT THAT LEVEL. HOWEVER, RATE FELL TO SF 2:42 THURSDAY. THERE WAS LITTLE CHANGE IN DM RATE BUT POUND STERLING RATE WAS LOWER. GOLD PRICE ROSE SLIGHTLY DESPITE IMF SALE AND OTHERWISE LIGHT TURNOVER IN CLAM MARKET. THREE LARGEST SWISS BANKS BOUGHT IMF GOLD. ZURICH DEALERS BELIEVE PRESENT PRICE LEVEL COULD CONTINUE TO PREVAIL DESPITE LOWER PRIVATE DEMAND FOR GOLD. RUSSIAN GOLD SALES WERE SAID TO HAVE DECLINED. RATES FOLLOW:

	7/4 (OPEN)	7/8 (CLOSE)
SPOT DOLLAR	2.4345	2.4250
FORWARD DISCOUNTS		
(PERCENT PER ANNUM)		
ONE MONTH	2.56	3.07
TWO MONTHS	2.41	2.65
THREE MONTHS	2.53	2.67
SIX MONTHS	2.58	2.64
SF/DM	105.11	105.17
GOLD	141.00	141.75

3. CAPITAL AND MONEY MARKETS: SNB FOREIGN EXCHANGE HOLDINGS DECLINED SF 2 BILLION AS END JUNE SWAPS WITH BANKS UNWOULD. SNB GIRO CLEARING ACCOUNTS FELL SF 4 BILLION. STOCK PRICES EASED SLIGHTLY; SKA IN-UNCLASSIFIED

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DEX (1959 EQUALS 100) SLIPPED 0.9 PERCENT TO 219.3. DOMESTIC BOND MARKET RECESSED UNTIL EARLY AUGUST. AVERAGE YIELD CONFEDERATION BONDS SLIPPED TO 4.36. COMPAGNIE FRANCAISE DES PETROLES ANNOUNCED LOAN OF SF 80 MILLION FOR 12 YEARS AT 5.5 PERCENT INTEREST. SUPERFOS A/S VEDBAEK, DENMARK, WILL BORROW SF 50 MILLION AT 5.75 PERCENT FOR 15 YEARS. SNB HAS LEFT UNCHANGED JUNE/JULY CEILING FOR FOREIGN LOANS AT SF 450 MILLION FOR LARGEST BANKS AND SF 70 MILLION FOR SO-CALLED OUTSIDERS CONSORTIUM.

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4. FEDERAL FINANCES: FEDERAL COUNCILOR CHEVALLAZ

ANNOUNCED GOVT'S PLAN TO REDUCE EXPECTED SF

2.2 BILLION 1978 DEFICIT AND FUTURE FEDERAL BUDGET

DEFICITS BY CUTTING EXPENDITURES SF 800 MILLION AND

INCREASING TAX REVENUES SF 1.7 BILLION BY 1980.

LIFTING TAX EXEMPTION ON ENERGY IMPORTS SHOULD BRING

ADDITIONAL SF 250 MILLION IN REVENUE AFTER 1979.

IN JUN 1978 SWISS VOTERS WILL BE ASKED TO APPROVE

RAISING TURNOVER TAX FROM 5.6 TO 7 PERCENT ON RETAIL

TRANSACTIONS AND 8.4 TO 10.5 PERCENT ON WHOLESALE

TRANSFERS. FEDERAL SPENDING PLANNED FOR 1978 SHOWS

ALMOST NO CHANGE FROM 1977 AND 1976 LEVEL OF SF 16

BILLION, THOUGH 2 TO 3 PERCENT INFLATION RATE IS

EXPECTED. FOLLOWING TABLE SHOWS ACTION PLANNED TO

REDUCE OUTLAYS AND INCREASE RECEIPTS:

(A) EXPENDITURE CUTS OF SF 800 MILLION:

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REDUCTION IN NEW PROJECTS: RP

SELECTED BUDGET ITEMS: 400

CONSUMER PRICE SUBSIDIES

(E.G., BREAD AND BUTTER): 150

SUBSIDIES TO CANTONS (1978 ONLY): 210

(B) INCREASED REVENUES OF SF 1,700 MILLION:

TURNOVER TAX INCREASE IN 1979: 1,400

TAX STAMP INCREASE 50 PERCENT IN APR 1978: 200

TOBACCO TAX INCREASE 20 PERCENT OCT 1978: 100

5. FINANCE MINISTERS MEETING: WEST GERMAN FINANCE MINISTER APEL AND AUSTRIAN VICE-CHANCELOER ANDROSCH MET WITH FEDERAL COUNCILOR CHEVALLAZ IN LAUSANNE TO DISCUSS ECONOMIC AND FINANCIAL DEVELOPMENTS OF THEIR RESPECTIVE COUNTRIES. PRESS REPORTED APEL SAID THAT ALTHOUGH DM APPRECIATION IS INEVITABLE REFLECTION OF ITS ECONOMY, WEST GERMANY OPPOSES TOO RAPID INCREASE IN DM AND FEARS HUGE US DEFICIT COULD STIMULATE NEW INFLATIONARY PRESSURES. ANDROSCH SAID INTERNAL MEASURES TO DEAL WITH AUSTRIAN DEVIDIC SHOULD ENABLE AUSTRIA TO AVOID DEVALUING, WHILE BUDGET MEASURES, INCREASED DISCOUNT RATE AND TIGHTER CREDIT WOULD REVERSE CAPITAL OUTFLOWS. CHEVALLAZ SAID SWISS FRANC EXCHANGE RATE WITH DM AND SCHILLING IS BACK TO NORMAL LEVEL THANKS TO MUTUAL COOPERATION OF RESPECTIVE MONETARY AUTHORITIES. FINAL COMMUNIQUE NOTED THAT GROWTH RATES OF ALL THREE COUNTRIES WERE SATISFACTORY IN VIEW OF GOAL TO CONTROL INFLATION; APPRECIATION OF CURRENCIES HAD PLAYED IMPORTANT ROLE IN ECONOMIC ADJUSTMENT; AND PRIORITY PROBLEM IS UNEMPLOYMENT.

6. JUNE BANK AGREEMENT: SWISS BANKERS' ASSN
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DIR LOSSER TOLD PRESS THAT 90 PERCENT OF SBA MEMBERS HAVE SIGNED JUNE AGREEMENT WITH SNB ON DEPOSIT ACCEPTANCE AND BANK SECRECY (BERN 2520) AND NEARLY ALL ARE EXPECTED TO SIGN BY END JUL. REMAINING 10 PERCENT HAD ASKED FOR CLARIFICATION ON APPLICATION OF ACCORD OR REQUESTED THEIR BOARD'S APPROVAL. SOME 50 PERCENT OF NON-SBA BANKS HAVE SIGNED; THOSE WHO HAVE NOT SIGNED INCLUDE MANY SMALL LOCAL BANKS FOR WHOM IDENTIFYING CLIENTS IS NO PROBLEM. ALL LARGE BANKS, PRIVATE AND FOREIGN HAVE SIGNED, I E THOSE REALLY CONCERNED WITH THE AGREEMENT. NO BANK HAS REFUSED TO SIGN; ALL HAVE SAID THEY ARE IN AGREEMENT IN PRINCIPLE BUT SOME WANT ADDITIONAL INFO.

7. BANKS: AGENCE ECONOMIQUE ET FINANCIERE (AGEFI)
EDITORIAL JUL 8 CRITICIZED SNB PRES LEUTWILER'S STATEMENT REPORTED IN JUL 11 TIME MAGAZINE INTERVIEW THAT JUN AGREEMENT ON ACCEPTING DEPOSITS AND BANK SECRECY MIGHT CAUSE SEVERAL SMALL BANKS TO CLOSE, WHILE STRESSING THAT SNB WOULD SUPPORT LARGE BANKS IF THEY WERE IN DIFFICULTY. AGEFI SAID THAT STATEMENT UNDERMINES CONFIDENCE OF INTERNATIONAL FINANCIAL COMMUNITY IN SWISS BANKS.

8. BANK LECLERC: BARCLAYS (SUISSE) SA HAS AGREED TO TAKE OVER NEARLY ALL PERSONNEL, MOST ASSETS, BANK BUILDING AND INVESTMENT MANAGEMENT PORTFOLIOS

OF BANK LECLERC, GENEVA, WHICH HAS BEEN CLOSED SINCE
EARLY MAY AS RESULT OF LIQUIDITY SHORTFALL OF
SF 10 TO 30 MILLION. UNOFFICIAL ESTIMATES INDICATE
CLIENTS MAY LOSE 20 TO 30 PERCENT OF THEIR ASSETS
HELD BY BANK LECLERC.
DAVIS

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Message Attributes

Automatic Decaptioning: X
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